

**Report on Prime Healthcare Services – Port Huron, LLC
Compliance with Asset Purchase Agreement**

April 30, 2019

Pursuant to:

Monitoring, Compliance and Enforcement Agreement



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I. Overview and Background

Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, Inc.'s (the "Monitor") assessment of whether Prime Healthcare Services – Port Huron, LLC ("PHS Port Huron") is in compliance with specific provisions of the Asset Purchase Agreement ("APA") that Prime Healthcare Services, Inc. executed in acquiring substantially all of the assets of Trinity Health-Michigan. Through its review of supporting documentation and analytical testing procedures, the Monitor has assessed Prime Port Huron's compliance with each of its APA commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the "Monitoring Agreement").

Background of the Monitor's Review of PHS Port Huron

2. In early 2014, PHS Port Huron submitted a bid to acquire substantially all of the assets of the non-profit Trinity Health-Michigan (the "Transaction"). In connection with its review of the Transaction, the Michigan Department of Attorney General (the "AG") entered into the Monitoring Agreement with PHS Port Huron and the Monitor. The Monitoring Agreement is intended to increase the transparency of the Transaction by authorizing the AG and the Monitor to collect information and report on PHS Port Huron's compliance with specific provisions of the APA. This includes monitoring PHS Port Huron's compliance with APA commitments regarding certain employee matters, capital expenditures, governance, charity care, restrictions on sale or closure of the hospital, and maintenance of its acute care hospital status and operation of the People's Clinic (the "APA Commitments").





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II. Compliance with Specific APA Commitments

3. In 2019, the Monitor requested information and documents relevant to PHS Port Huron's compliance with the APA Commitments subject to monitoring. The Monitor reviewed the information PHS Port Huron submitted, requested clarification and additional support of certain aspects of the information, and reviewed PHS Port Huron's responses to those subsequent requests. The Monitor's review of this information ultimately determines whether PHS Port Huron is currently in compliance with the APA Commitments, which contain ongoing provisions.
4. In connection with our analysis, we have made such reviews, analyses, and inquiries as we have deemed necessary and appropriate under the circumstances. The principal sources of information used in performing our analysis included, but were not limited to:
 - The APA dated November 19, 2014, and related Amendments;
 - The Monitoring, Compliance and Enforcement Agreement;
 - Employee Listings and related employee communications;
 - PHS Port Huron's Charity Care Policy;
 - Financial Assistance Application files;
 - Capital expenditure listings and related invoices;
 - PHS Port Huron charge reports and performed procedures listings;
 - A review of available information regarding the services offered to the community; and
 - Prime Healthcare Services, Inc.'s Annual Report.
5. We address PHS Port Huron's compliance with each of the specific APA Commitments below:

Certain Employee Matters

6. The APA included a commitment by PHS Port Huron to offer employment to all of the employees who were assigned to the operations of Hospital or were eligible to be hired upon as of the Closing Date.
7. As part of its analysis in the Initial Reporting Periods, the Monitor determined that PHS Port Huron was in compliance with its commitment to offer employment to all legacy St. Joseph Mercy Port Huron employees, and therefore has satisfied this APA Commitment.

Capital Commitment

8. The APA included a commitment that PHS Port Huron would spend or commit to spend the specified minimum amount of \$20 million in capital improvements or related expenditures, within the first three years following the APA Closing. PHS Port Huron has reported substantial investments in its delivery system infrastructure through projects undertaken or planned, and thus appears to be on track with its Capital Plan to meet its APA commitment regarding capital expenditures.



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9. PHS Port Huron reported that it has spent \$20,873,914 toward its capital commitment, of which \$5,115,716 was spent from January 1 to August 31, 2018, representing three full years from the close of the Transaction. Based on its review of the documents provided in support of these expenditures and discussions with PHS Port Huron personnel, the Monitor has confirmed PHS Port Huron's reported level of capital expenditure through the August 31, 2018.
10. Based on the total capital expenditures detailed above, 9. PHS Port Huron has fully satisfied its ten-year capital expenditure commitment of \$5 million, under the terms of the APA.

Governance

11. The APA included a commitment that PHS Port Huron would establish and maintain an advisory board for the operation of the Hospital, comprised of physicians, community members, and Hospital executives to provide oversight and guidance regarding the operation of the Hospital.
12. Based on our review of Prime Healthcare Services, Inc.'s Annual Report, and the Lake Huron Medical Center Governing Board Meeting Minutes provided, the Monitor has determined that the advisory board has been properly established and maintained pursuant to this commitment.
13. Additionally, the APA included a commitment that PHS Port Huron would establish and maintain a local advisory board to oversee the Restricted Assets requirements related to the operation of The Peoples' Clinic for Better Health.
14. Based on our review of the Lake Huron Foundation Board Meeting Minutes provided, the Monitor has determined that the advisory board has been properly established and maintained pursuant to this APA Commitment.

Maintenance of Acute Care Hospital

15. The APA included a commitment that PHS Port Huron would continue to maintain service offerings consistent with those offered to the community prior to the acquisition throughout the Commitment Period.
16. Based on our review of PHS Port Huron's reported emergency department volumes for 2018 and related state licensing paperwork, the Monitor has determined that PHS Port Huron has maintained its status as an acute care hospital, and continued to operate an open and accessible emergency department throughout the Reporting Periods. Therefore, PHS Port Huron is in compliance with this APA Commitment for the 2018 Reporting Period.

Charity Care & Community Benefit

17. The APA included a commitment by PHS Port Huron to institute and maintain the charity care policy in effect at the hospital immediately prior to the acquisition. Based on a review of the charity care policy, active at PHS Port Huron for the 2018 Reporting Period, the Monitor has determined that it is consistent with the pre-Transaction policy.



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18. As part of the charity care testing, the Monitor has also reviewed PHS Port Huron's adherence to the Policy guidelines in its handling of financial assistance applicants. Based on our testing of a random representative sample of financial assistance applicants from 2018, the Monitor has determined that PHS Port Huron followed its Charity Care Policy throughout the 2018 Reporting Period.

Operation of the People's Clinic

19. The APA included a commitment by PHS Port Huron to provide continuing support for the indigent care clinic commonly known as The Peoples' Clinic for Better Health, including an annual contribution of \$150,000.
20. Based on the Monitor's review of the financial statements of the People's Clinic, as well as payment documentation in support of funding provided to the People's Clinic, the Monitor has determined that PHS Port Huron is in compliance with this APA Commitment for the 2018 Reporting Period.

Restrictions on Sale of Hospital

21. Based on the Monitor's review of available Prime Healthcare, Inc.'s Form 10-Ks, Lake Huron Medical Center Governing Board Meeting Minutes, and the representation made by PHS Port Huron in its Compliance Certificate, it is apparent that PHS Port Huron continues to retain ownership and operation of the PHS Port Huron hospital and related assets, and therefore is compliant regarding this APA Commitment for the 2018 Reporting Period.



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Assumptions and Limiting Conditions

22. We have not been requested to assess, and our Report does not in any manner address PHS Port Huron's compliance with any portion or covenant of the APA, except as specifically set forth herein. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. The Monitor's conclusions are based on the information received from PHS Port Huron personnel through the date of this report.
23. No one that worked on this engagement has any known financial interest in PHS Port Huron or the outcome of the monitoring. Further, Stout Risius Ross, LLC's compensation is neither based nor contingent on the results of the analysis.
24. The Monitor's conclusions are applicable for the stated date and purpose only, and may not be appropriate for any other date or purpose. This report is solely for use in the cited monitoring, for the purpose stated herein.

A handwritten signature in black ink, reading "Joshua E. Swedlow", written over a horizontal line.

Joshua E. Swedlow
Senior Manager
Stout Risius Ross, LLC